

February 3, 2012

The Hon. Darrell Steinberg
California State Senate
State Capitol, Room 205
Sacramento, CA 95814

Dear Senator Steinberg:

This letter provides an update about the California Housing Finance Agency's revised policy regarding rentals of properties obtained with CalHFA financing. This policy revision came after research into best practices of other states and input from the Board of Directors. We also employed the legal expertise of our bond counsel to comprehensively reevaluate and retool the existing policy. I believe we have balanced CalHFA's legal obligations with our desire to derive a new policy that satisfies applicable Internal Revenue Service regulation while simultaneously taking dramatic steps to ease the financial pressures of our borrowers.

The core of the revised policy is to replace a specific list of eligible financial hardships with conditions that are more relevant in the current economic environment. Rental permission may now be granted if the following conditions are met:

1. As required by Internal Revenue Code section 143, the Borrower had a reasonable expectation that the home would be the Borrower's principal residence at loan origination.
2. The Borrower's current loan balance in relation to the home's current market value prevents the Borrower from either selling the home or refinancing the CalHFA loan.
3. The Borrower is current on the mortgage payment.
4. The Borrower lived in the home for at least one year after obtaining a CalHFA mortgage.
5. The Borrower demonstrates through a standard set of income and expense questions supported by documentation, that the Borrower is capable of meeting the obligations of both the new housing expense and the pre-existing CalHFA mortgage payment.

Permission to rent a CalHFA-financed property will be granted for a twelve-month period, and may be extended beyond that initial period on a case-by-case basis. Tenants who take up residency in a CalHFA-financed property will be required to sign a document acknowledging that they are aware of their exceptional situation.

CalHFA is confident that this revised policy, effective February 6, 2012, shows the flexibility and understanding necessary to accommodate those who are suffering in California's depressed housing market.

Sincerely,

A handwritten signature in black ink, appearing to read 'Claudia Cappio', with a stylized flourish at the end.

Claudia Cappio
Executive Director

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